

HR Field Guide: 5 Tips To Effective Performance Management

Performance management systems enable organizations to automate and optimize their performance processes and align employee development and goals with corporate objectives. This field guide will explore five critical steps to ensure that you get the most out of your workforce performance management investments.

Introduction

Performance management systems enable organizations to automate and optimize their performance processes and align employee development and goals with corporate objectives. Organizations that have invested in PM systems cite a number of significant benefits, including:

- Establishing clear performance expectations for the workforce
- Standardizing performance processes and practices across the entire organization
- Aligning employee goals with the strategies and objectives of the organization
- Facilitating communication of goals, strategies, and core values
- Ensuring that goals are consistently being met in an effective and efficient manner
- Establishing clearly defined and dynamic career development plans – which can be linked to learning and training – leveraging competencies
- Supporting pay-for-performance initiatives (when linked with compensation)
- Enabling objective, company-wide workforce measurement, reporting, and analysis, including regulatory compliance reporting and auditing

Here are five critical steps to ensure that you get the most out of your Performance Management investments:

TIP #1: CALIBRATE PERFORMANCE RATINGS ACROSS THE ORGANIZATION

Ratings Distribution Management (RDM), also called ratings calibration, provides the ability to calibrate ratings to ensure that the dissemination of performance scores is more consistent across an organization. In a typical diverse, global

organization, performance rating scales differ from division to division. RDM ensures that employees are rated consistently and fairly across the entire organization, and as a result, incentives and rewards can be applied more appropriately. RDM also eliminates the age-old problem of managers rating all of their direct employees as 4s or 5s on a five-point scale (often to get a bigger chunk of the bonus pool). It “forces” managers to make oftentimes difficult decisions about the performance of their directs. The resulting ratings calibration typically resembles a bell curve (e.g., few 1s & 2s, many 3s, few 4s & 5s).

Key questions to consider when deploying RDM are:

1. Are the performance management system and associated RDM functionality flexible enough to support different ratings scales and models? For example, different divisions or geographies may have unique ways of managing their performance processes.
2. Does the performance management system mandate the use of RDM functionality? Ideally, the functionality should be optionally enabled with a simple configuration switch, since the concept of ratings calibration is controversial to some organizations.

TIP #2: LINK PERFORMANCE PROCESSES TO CAREER DEVELOPMENT & LEARNING

While the output of the performance management process is a finalized performance review between a manager and his/her direct report, the process also identifies employee skill, competency, and behavior gaps. Along with other forms of self-assessment, as well as 360 feedback (if used within the organization), a clear picture of employee gaps emerge. With this picture in hand, employees are better able to build career development plans that focus on improvement in their current role, better prepare them for a future role of interest, or both.

The importance of career development cannot be underestimated. According to a survey of global HR leaders conducted by SumTotal, fully 97% of HR leaders believe that a systematic career development process positively impacts employee retention and engagement. HR leaders also believe that providing career advancement opportunities as well as dedicated career development planning to employees are the two most important mechanisms for retaining high performers.

The final step in the career development planning process is to select educational and training activities as developmental goals in the Performance management system to improve skills, competencies, and behaviors. Indeed,

many organizations are moving closer to linking career development and learning management. In fact, nearly two-thirds of organizations have tied or plan to tie employee career development planning to learning management in order to facilitate training and course work.

A few key questions to consider when linking these various talent management functions are:

1. Can an employee create a new development plan directly within the performance review process, or, jump directly into his/her existing plan to amend it?
2. Does the career development process stand on its own as a separate process to enable off-performance review cycle planning?
3. Is the transition between Performance management, career development, and learning management processes seamless to users (e.g., same user interface, look and feel, does not give the user the impression of a disconnected process)?
4. Is systems integration effort and cost required to tie all these talent functions together, or do the functions all reside on a common technology platform that natively connects them out of the box?
5. Can you easily run cross-functional reports to identify the impact of career development and learning on employee performance?

TIP #3: ENABLE PAY-FOR-PERFORMANCE TO BUILD A MERIT-BASED CULTURE

Programs that align employees' compensation – merit increases, bonuses, long-term incentives – to their performance have proven to be very effective in driving actual performance. Often called pay-for-performance (P4P), the concept is to build a culture of top performers by aligning goals, performance, and rewards across an entire organization. Motivating, rewarding, and retaining top performers is a key business objective for any company that seeks to successfully maintain or exceed growth expectations.

Best-in-class organizations focus on a performance-driven rewards system that compensates individual contributors directly proportionate to what they achieve and what they contribute to the bottom-line. The challenge lies in effectively aligning employee goals with organizational objectives, automating Performance

management processes, and linking them with complex compensation policies or time-based incentive plans at an enterprise level.

P4P and merit-based pay programs – especially those that relate to executives – have received renewed interest lately due to emerging legislative and regulatory compliance pressures stemming from the global financial system crisis. Yet only 36% of organizations have made significant technology investments to automate and improve P4P processes. Clearly, there is an opportunity to both espouse the virtues of a merit-based culture while at the same time working toward becoming compliant as new regulations are put into effect. The latter issue will be particularly important for publically-traded companies.

Ideally, a single, centralized HR platform that natively connects all of the required components for P4P is required because it facilitates cross-functional reporting and eliminates the technical challenge and cost of integrating and managing disparate systems.

The required pre-integrated components for P4P are:

1. **Workforce Performance Management:** Automates and optimizes performance processes and aligns employee development and goals with corporate objectives. Performance management enables organizations to plan employee efforts in support of organizational goals and strategic initiatives, and to evaluate outcomes, performance, and core competencies.
2. **Compensation Planning:** Compensation Management: Simplifies and standardizes the planning, modeling, budgeting, analysis, and execution of global compensation and reward policies. Compensation Management enables organizations to develop and apply consistent compensation plans and rewards to all employees.
4. **Reporting and Auditing:** Provides accessible and secure cross-functional compliance reports and audit trails of all transactions related to compensation and performance. Reporting and Auditing aggregates key information to facilitate timely decision making.

TIP #4: DRIVE CONTINUOUS IMPROVEMENT BY LEVERAGING WORKFORCE ANALYTICS

Traditional transactional reporting and spreadsheet-based tools have been available to HR for many years. Often inflexible, difficult to use, and inaccessible, these tools nevertheless are what HR professionals currently rely on for critical workforce metrics (e.g., employee retention, time-to-hire). But they can hardly be classified as strategic. And given the global economic conditions, HR leaders are under increasing pressure to consistently measure and communicate the impact of their HR programs, especially to secure funding for strategic initiatives. Unfortunately, transactional reporting tools provide little help.

Strategic workforce analytics, on the other hand, provide more meaningful methods for measuring HR efficiency and effectiveness. New, pre-integrated technologies have emerged that enable HR professionals to focus more on analysis, insight, and action rather than on data collection and manipulation. For example, what HR leader would not like to know the true impact of learning and training programs on employee performance, or the effect of employee engagement programs on workforce productivity?

Part of the challenge facing HR leaders is the fact that data is spread out in various silos across the organization and there is no common employee system of record. A single, fully-connected HR platform that covers the gamut of talent functions including Performance management can alleviate some of the problems, since the data is all in one place. And with a robust analytic and reporting function, along with pre-defined metrics, previously unavailable insight can be gained.

A few key questions to consider when evaluating approaches to workforce analytics are:

1. Does the Performance management system leverage a robust and industry standard analytics engine which provides interactive graphical displays of all data?
2. Does the Performance management system abstract the complexity out of the analytics engine so that non-technical users can conduct their own analyzes via an intuitive, web-based interface?
3. Is there an ability to compare and relate deep analytical views beyond the Performance management system – in other words, across the entire talent management platform – to glean insight into more strategic HR metrics such as the impact of training

on employee performance?

4. Does the analytics system reduce administrative overhead by leveraging the same comprehensive security access rights and rules as the Performance management system so that security policies only have to be established once?

TIP #5: CONFIGURE, DON'T CUSTOMIZE

The elements of a Performance management system must be fully configurable to suit each organization's unique needs. The sections of a performance management form, such as goals, competencies, and development activities, as well as the number of steps in the process (i.e., workflow), must be selectable by the organization, division, or even geography. Configuration includes which actions can be performed at each step of the process, security controls over who can read or edit the form, and the text of automatic e-mail notification messages.

It is important to delineate between configuration and customization because different platforms and technologies tend to favor one approach over the other.

- **Customization:** Making programmatic changes to an application. Customization is a development-centric exercise that extends an application beyond what it was designed to do. Custom code can be useful but also dangerous since it has implications on future upgrades and tends to increase total cost of ownership.
- **Configuration:** Making declarative changes to an application. Configuration entails changing system parameters to affect application change. Configuration is often preferable to customization since it does not jeopardize future upgrades.

Advancements in technology have made a pure configuration approach the preferred option for most organizations. Configuration is achieved through parameter-based utilities and wizards that do not require technical programming expertise, thereby providing customers with flexibility and complete control to configure every aspect of the Performance management system, including menus, forms, workflows, look-and-feel, and security. The benefits include lower total cost of

ownership as well as more seamless future upgrades.

A few key questions to consider pertaining to configuration are:

1. Can non-technical users such as HR administrators leverage configuration tools that do not require technical programming skills or IS/IT involvement?
2. Do the configuration tools enhance the overall flexibility of the Performance management system by providing very granular configuration options, including changes to menus, forms, workflows, look-and-feel, and security?
3. Do the tools enable rapid deployment of customer-specific requirements and the flexibility to make changes on-the-fly? For example, how easy is it to create a new performance process or adapt an existing one for use in a new division or geography?
4. Are configurations preserved between Performance management system upgrades, thereby reducing the time, effort, and cost of upgrading to new versions?

Conclusion

Your organization has decided to technology-enable your workforce performance management processes, but your journey is just beginning. New business drivers may lead you in one direction, while regulatory compliance issues may mandate another direction. Getting the most out of your investments will take patience and perseverance. The key is to remain flexible and open to the numerous possibilities and benefits that a systematic Performance management approach can have on your organization.

To summarize the top five tips to effective workforce performance management:

1. Calibrate Performance Ratings Across The Organization
2. Link Performance Processes to Career Development And Learning Management
3. Enable Pay-For-Performance To Build A Merit-Based Culture
4. Drive Continuous Improvement By Leveraging Workforce Analytics
5. Configure, Don't Customize

AUTHORED BY

Steve Bonadio, Vice President of Product Marketing,
SumTotal Systems, Inc.

For more information, contact:
sbonadio@sumtotalsystems.com

ABOUT SUMTOTAL

SumTotal Systems, Inc. is the global leader in complete talent management software that enables organizations to more effectively drive business strategy. Recognized by industry analysts as the most comprehensive talent management solution, SumTotal provides full employee lifecycle management, including a core system of record, from a single provider for improved business intelligence. The company offers customers of all sizes and in all industries the most flexibility and choice with multiple purchase, configuration, and deployment options. With more than 1,800 customers and 25 million users worldwide, we have increased the performance of the world's largest organizations.

For more information, or to request a demonstration, please call +1-866-766-6825 (US / Canada), +1 352 264 2800 (international) or visit our website: **www.sumtotalsystems.com**

Download Additional
FREE HR Resources
from SumTotal:



GET WHITEPAPERS



GET CASESTUDIES



GET ANALYST
REPORTS

www.sumtotalsystems.com

CORPORATE HEADQUARTERS:

SUMTOTAL SYSTEMS, INC.
2850 NW 43RD STREET
SUITE #200
GAINESVILLE, FL 32606 USA
PHONE: +1 352 264 2800
FAX: +1 352 264 2801

EMEA:

SUMTOTAL SYSTEMS, UK
59-60 THAMES STREET
WINDSOR, BERKSHIRE
UNITED KINGDOM, SL4 1TX
PHONE +44 (0) 1753 211 900
FAX +44 (0) 1753 211 901

APAC:

SUMTOTAL SYSTEMS, INDIA PVT. LTD.
7TH FLOOR MAXIMUS TOWERS
BUILDING 2B, MIND SPACE
RAHEJA IT PARK, CYBERABAD
HYDERABAD, AP- 500081, INDIA
PHONE: +91 (0) 40 6695 0000
FAX: +91 (0) 40 2311 2727

© 2010 SumTotal Systems, Inc. All rights reserved. SumTotal, the SumTotal logo, and ToolBook are registered trademarks or trademarks of SumTotal Systems, Inc. and/or its affiliates in the United States and/or other countries. Other names may be trademarks of their respective owners. 10_1111LS